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# **Audit of Controls over Government Property Provided under Federal Student Aid Contracts**

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## **FINAL AUDIT REPORT**



**ED-OIG/A19-B0001  
March 2002**

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Our mission is to promote the efficiency,  
effectiveness, and integrity of the  
Department's programs and operations.



U.S. Department of Education  
Office of Inspector General  
Operations Internal Audit Team  
Washington, DC

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Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

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## TABLE OF CONTENTS

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	<u>Page</u>
EXECUTIVE SUMMARY.....	1
AUDIT RESULTS .....	2
Finding No. 1 -- Improvements Were Needed in the Management of Government Property under Federal Student Aid Contracts .....	2
Recommendations .....	6
OTHER MATTERS.....	8
BACKGROUND.....	9
OBJECTIVES, SCOPE, AND METHODOLOGY .....	10
STATEMENT ON MANAGEMENT CONTROLS .....	11
ATTACHMENTS	
Attachment 1 -- Contractor Reports Issued .....	13
Attachment 2 -- Department of Education Response .....	14

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## EXECUTIVE SUMMARY

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The objectives of our audit were to (1) determine whether computer equipment furnished to Federal Student Aid (FSA)<sup>1</sup> contractors was properly accounted for and identified as Department of Education (Department) property, and (2) evaluate procedures for identifying and controlling the use of equipment furnished to FSA contractors.

At the start of our audit, we found that FSA was changing its approach to providing Government property to its contractors. In the past, FSA had provided most computer equipment used under its contracts. FSA was in the process of transitioning to a concept where contractors would be responsible for any equipment needed. In March 2000, Contracts and Purchasing Operations staff initiated a project to determine what property FSA contractors currently held. In April 2000, the Chief Information Officer for FSA informed contractors and Department staff that equipment would no longer be provided except in special, isolated circumstances. Based on this change in approach, we did not evaluate FSA's procedures for identifying equipment to be furnished to its contractors.

We evaluated FSA's controls over Government property provided under three FSA contracts. We found that improvements were needed in the management of Government property under each of the contracts and that FSA officials did not effectively monitor Government property held by the contractors. Specifically, we found that FSA staff did not ensure that contractors accounted for all property and that contractors managed property in accordance with regulations. Contractor records were not accurate or complete. Equipment was not appropriately identified as Department property. We also found that some purchases were not utilized or disposed of timely and that some equipment could not be found. As a result, Department property was at risk for misuse or loss.

To correct these weaknesses we recommend that the Chief Operating Officer for FSA:

- Develop and implement a plan for monitoring Government property, including clear definition of responsibilities.
- Evaluate the utilization and disposition of property.
- Evaluate the need for an inventory listing of contractor-owned equipment under the Federal Family Education Loan (FFEL) contract.
- Conduct a physical inventory and reconcile the items listed as located at Department facilities with the contractor's listing and with the Department's asset management database to ensure equipment status is correctly reported and Department records are accurate.

The Department concurred with our findings and recommendations and the Other Matter presented. The full text of the Department's response is included as Attachment 2 to this audit report.

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<sup>1</sup> As of March 6, 2002, Student Financial Assistance changed its name to Federal Student Aid or FSA.

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## AUDIT RESULTS

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Overall, we found that improvements were needed in the management of Government property under Federal Student Aid (FSA) contracts. Our audit revealed that FSA officials did not effectively monitor Government property held by FSA contractors. As a result, FSA was not aware that contractors were not appropriately accounting for Government property. We found that contractor records were not accurate or complete. Equipment was not appropriately identified as Department property. We also found that some purchases were not utilized or disposed of timely and that some equipment could not be found. As a result, Department property was at risk for misuse or loss.

During our audit, we also identified a related issue involving property management. A vendor provided ten complimentary laptop computers with a large delivery of Government property. We found that FSA had not appropriately accounted for these computers. The OTHER MATTERS section of this report contains additional information on this issue.

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### **Finding No. 1 – Improvements Were Needed in the Management of Government Property under FSA Contracts.**

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Improvements were needed in FSA's management of Government property provided to or purchased by its contractors. We found that FSA staff -- Contracting Officers (CO), Contract Specialists (CS), and Contracting Officer's Representatives (COR) -- did not make use of available data and required reports to monitor Government property. Specifically, we found that FSA staff did not:

- Reconcile purchases of Government property with listings provided by the contractors to ensure all property was being accounted for appropriately;
- Ensure that Department property was being managed under approved property control systems;
- Ensure that required reports were submitted;
- Ensure Government property was being utilized or disposed of timely; and
- Provide updated information on the status of equipment purchased and installed at Department facilities.

Contracts and Purchasing Operations (CPO) management stated that once equipment is transferred to the contractor, it is the contractor's responsibility to safeguard and account for the

equipment. Further monitoring was not pursued until the end of the contract. We also found ineffective communication between contracting and FSA staff on the purchase and monitoring of Government property.

Federal Acquisition Regulation (FAR) §45.103(a) states "Contractors are responsible and liable for Government property in their possession, unless otherwise provided by the contract." FAR §45.102 states that if Government property is provided under a contract, "[A]gencies shall require contractors to be responsible and accountable for, and keep the Government's official records of Government property in their possession or control." The Government also has responsibilities with respect to monitoring the use and management of Government property. The Government's responsibility includes review and verification of contractor reports, review of contractor property control systems, ensuring required reports are received, and ensuring proper utilization and disposition of property.

Without effective monitoring, the FSA was not aware that contractors were not appropriately accounting for Government property. We found the contractors' records were not accurate or complete, and the contractors were not managing Government property in accordance with regulations. Since the contractors' records are considered the Government's official property records, the accuracy and completeness of these records is an important factor. At the end of a contract, an inventory of Government property is to be provided to the Department. Without effective monitoring of Government property throughout the term of the contract, FSA staff would not be able to detect errors or omissions in the ending inventory submitted. If that inventory is not accurate or complete, decisions made as to the disposition of property, or allowances provided for that property, may not be appropriate. Without effective monitoring, the Department's property is at risk for misuse or loss.

### **Government Property Purchases Were Not Reconciled with Property Listings**

We found that Government property purchases were not reconciled with property listings. FAR §42.1106(b) states:

Contract administration offices shall review and verify the accuracy of contractor reports and advise the contracting officer of any required action. The accuracy of contractor-prepared reports shall be verified either by a program of continuous surveillance of the contractor's report-preparation system or by individual review of each report.

Two of the three contractors we reviewed provided FSA with regular reports of Government property in their possession. The third contractor provided a listing of all Government property held as of April 4, 2000. We found that FSA officials had not reconciled these reports to available information regarding equipment provided to the contractor or purchased under the contracts. In total, we found that the Government property listings provided by the three contractors did not include 115 items of Government property and inappropriately classified 29 items that were not Government property under the contracts.

We also noted ineffective communication related to the purchase of equipment for the contractors and monitoring of the equipment.

- Contracting staff was not informed of all the purchases of Government property made and provided to the contractors by program staff. Contracting staff did not have copies of all the purchase orders or other records of the equipment provided to two of the three contractors reviewed.
- FSA Office of the Chief Information Officer (OCIO) staff purchased equipment and provided it to two of the contractors. However, FSA OCIO staff could not provide copies of purchase orders for all equipment provided. The COR for one contract was not involved in the purchases and did not have records of the equipment provided. For this same contract, the CO stated that the COR was monitoring Government property, and the COR stated that the CO was monitoring Government property.

### **Department Property Was Not Managed Under Approved Property Control Systems**

FAR §45.104(b) states: "The contracting officer or the representative assigned the responsibility as property administrator shall review contractors' property control systems to ensure compliance with the Government property clauses of the contract."

The property control systems for each of the three contractors were reviewed and approved by another Federal agency. FSA staff confirmed that each contractor had an approved system but were not aware that property under the Department contracts was not being managed under these systems. As a result, FSA had no assurance that the management system for its property was appropriate. In fact, we found that 67 items were not appropriately marked as Government property, and records did not comply with FAR requirements for unit costs for 705 items.

### **Some Required Reports Were Not Submitted**

FAR §42.302(a)(58) lists ensuring "...timely submission of required reports..." as a contract administration function. Department of Education Directive, C:GPA:2-110, "Contract Monitoring for Program Officials," dated January 12, 1987, section IX-E, includes "...Delaying or failing to provide required reports or deliverables..." as a common contractor problem to monitor.

During our review, we found that FSA staff did not ensure that contractors provided required Government property reports. We found that contractors did not provide annual reports of the value of Government property in their possession, nor did they provide reports of inventories of Government property. These reports would have assisted FSA staff in monitoring the use of Government property under the contracts.

- FAR §45.505-14(a) requires contractors to provide an annual report on the total acquisition cost of Government property for which the contractor is accountable. CPO management

stated that they had not relieved contractors of this reporting requirement. However, they had not enforced the requirement since the Department's Office of the Chief Financial Officer had not asked for this information for the annual financial statements. None of the three contractors we reviewed had ever provided such a report<sup>2</sup>.

- FAR §45.508 requires contractors to perform periodic physical inventories of all Government property in their possession or control. FAR §45.508-2 requires contractors to submit reports of the results of these inventories to the Government. None of the three contractors had provided such reports to FSA. In fact, we found that although the contractors were reviewing the status of some Government property, none of the three contractors performed periodic physical inventories of all Government property in their possession. At one contractor, 17 items of Government property could not be located.

### **Government Property Purchases Were Not Utilized or Disposed of Timely**

Department of Education Directive, C:GPA:2-110, section X-L-1 & 2, states: "When Government property is provided under a contract, the COTR<sup>3</sup> is responsible for advising or assisting the CO in:

- Determining the necessity of providing Government property;
- Determining the kind and quantity of property required and the period of use; and
- Ensuring proper utilization and disposition of the property."

One of the contractors reviewed purchased Government property in excess of \$279,000 to upgrade a voice recognition unit established under the Federal Family Education Loan (FFEL) program contract, but the equipment was never installed or used. Since August 1998, the equipment has been stored at the contractor's facility awaiting disposition. FSA staff stated that subsequent to the purchase of the equipment, FSA cancelled this requirement under the FFEL contract and transferred the function to another contractor. The other contractor used a different type of equipment, so the items purchased under the FFEL contract could not be transferred. The vendor refused to take the equipment back and refund the cost since the equipment had been delivered six months prior to FSA's request for return. At the time of our review, FSA had not provided disposition instructions to the contractor. The COR stated that she plans to include the equipment in an auction.

### **Status of Equipment Installed at Department Facilities Was Not Updated**

One contract provided for the purchase of equipment to be used at Department facilities by FSA staff to access the FFEL system. This equipment was included on the contract's component

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<sup>2</sup> Although two of the three contractors were providing regular listings of the Government property in their possession, these reports did not include costs that would satisfy the requirements of FAR 45.505-14(a).

<sup>3</sup> The term "COR," Contracting Officer's Representative, has replaced "COTR," Contracting Officer's Technical Representative, in the Department's vernacular and in Government-wide use.



inventory listing as was all equipment, Department and contractor-owned, used to manage the FFEL system. We found, however, that FSA staff did not provide the contractor with updated information on the status of this equipment.

As of December 31, 2000, the contractor listed 425 items as installed at Department locations. We attempted to verify a random sample of 30 of the 156 items listed for the Department's headquarters facility and determined that none of the items could be located. FSA staff did not have any records of the disposition of these items. Only 3 of the 30 items were recorded in the Department's asset management system. The COR stated that the items in our sample were properly disposed of under the old Department inventory system before she took over as the COR. She further stated that FSA should have updated the listing long ago.

### ***Recommendations:***

We recommend that the Chief Operating Officer for Federal Student Aid:

- 1.1 Ensure that contract management staff develop and implement a plan for monitoring the management of Government property, including clear definition of responsibilities. The monitoring plan should also include:
  - a. Reconciling purchases of Government property with contractor-provided property records.
  - b. Ensuring compliance with FAR requirements for Government property. Specifically, ensuring Department property is being managed under approved Government property systems, property records include all required data, annual reports of the value of Government property are submitted, and periodic inventories are conducted with results reported to FSA.
- 1.2 Reinforce COR responsibilities to determine the need for Government property and to ensure proper utilization and disposition. With respect to the unused voice recognition unit equipment purchased under the FFEL contract, provide prompt disposition instructions to the contractor.
- 1.3 Evaluate the continuing need for the component inventory listing under the FFEL contract, especially with respect to contractor-owned equipment and equipment located at Department facilities. If this information is not needed, modify the contract appropriately to delete this requirement, including any appropriate pricing adjustments. In addition, the FSA should:
  - a. Conduct a physical inventory and reconcile the items at Department facilities on the contractor's listing to identify items that are no longer in use. Information should be provided to the contractor to correct the status of items purchased under the contract.

- b. Reconcile physical inventory results with information in the Department's asset management database and update equipment status appropriately in that system.

### **Department of Education Comments**

The Department concurred with our findings and recommendations and offered additional comments regarding property not managed under the contractors' approved property control systems. The Department cited the FAR § 45.104(a) requirement that "[t]he review and approval of a contractor's property control system by one agency shall be binding on all other departments and agencies based on interagency agreements." The Department further recommended that OIG enter into appropriate agreements with the Defense Contract Audit Administration (DCAA) and other Federal audit agencies. The Department also stated that the report fails to note that through its oversight efforts, the Department came to question the adequacy of the contractors' property management and asked the OIG to look into the matter during its review.

### **Office of Inspector General Comments**

During the audit, we informed the Department that no interagency agreement was in place so the FAR citation does not apply. With respect to the Department's recommendation concerning establishing interagency agreements, that is the Department's responsibility. Had the Contracting Officer questioned the contractors, or required a certification that the contractors manage the Department's property under their approved property management systems, this issue would have been detected.

On the Department's second point, we provided information in the Background section of the draft report that noted CPO's prior concerns and actions taken. That section remains unchanged in this final report.

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## OTHER MATTERS

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### **Laptop Computers Were Not Accounted for Properly**

With a large delivery of Government property to an FSA contractor, a vendor provided ten complimentary laptop computers. The computers were valued at \$35,790. The contractor turned the computers over to FSA upon receipt in May 1999. At the time of our initial review in March 2001, only 9 of the 10 computers could be located. In addition, only 2 of the 10 computers were included in the Department's asset management database. As of September 21, 2001, only one additional computer was recorded in the database, leaving six of the nine computers that could be located unaccounted for in the Department's records. We also noted that information for two of the three computers included in the database was inaccurate or incomplete.

This occurred because FSA staff did not appropriately account for the computers. FSA staff recorded receipt of the laptops in an unofficial record and did not add the equipment to official Department property records. Several FSA staff used the computers at their homes, so the computers were not included in physical inventories.

As a result, equipment valued at \$3,579 could not be located. Equipment valued at \$21,474 was not included in the Department's official property records and therefore was vulnerable to undetected loss or misappropriation.

We recommend that FSA ensure the computers that could be located are accurately reflected in Department property records.

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## BACKGROUND

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Department of Education contract management staff include CO, CS, and COR. Generally, the CO and CS are staff in CPO under the Department's Office of the Chief Financial Officer. The COR is a member of the program office staff, in this case FSA. During our audit, the contracting function for FSA was transferred from CPO, to Acquisitions and Contract Performance (A&CP) in FSA. CO and CS staff from CPO were detailed to A&CP until additional staff were hired in that section. FSA has authority to perform aspects of contracting for the information and financial systems supporting its programs as a result of the 1998 amendments to the Higher Education Act.<sup>4</sup>

The decision to provide property to a contractor is the responsibility of the program office. In the past, FSA provided most computer equipment used under its contracts. At the time of our review, FSA was moving to a strict service-contracting concept where the contractors are responsible for any equipment needed. In April 2000, the Chief Information Officer for FSA informed contractors and FSA staff that equipment would no longer be provided except in special, isolated circumstances.

CPO staff had been concerned with the management of Government property provided to FSA contractors. To determine what Government property was currently in the hands of FSA contractors, CPO sent a request to all FSA contractors for a listing of all Government property in their possession. The request, dated March 3, 2000, stated that the information should meet the requirements of FAR §45.505-1, "Basic Information," and should be provided by March 15, 2000. CPO staff stated that they became aware of potential property management issues when one contractor could not provide the requested information on a timely basis. During Fiscal Year 1999 over \$18 million in Government property was provided to this contractor.

Complete information on the total value of the equipment held by FSA contractors was not available, as the Department had not enforced the requirement that contractors submit this information on an annual basis. In fact, the information provided by the three contractors in response to CPO's March 3, 2000, request did not include unit prices as requested by CPO. FAR §45.505-1 cited in the request specifically includes unit price as part of the basic information required in Government property records. (See Finding No.1 for further discussion of this issue.)

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<sup>4</sup> See sections 141 and 142 of the Higher Education Act of 1965, as amended.

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## OBJECTIVES, SCOPE, AND METHODOLOGY

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The objectives of our audit were to (1) determine whether computer equipment furnished to FSA contractors was properly accounted for and identified as the Department's property, and (2) evaluate procedures for identifying and controlling the use of equipment furnished to FSA contractors.

To accomplish our objectives, we obtained an understanding of the controls in place at the Department over the monitoring of Government property. We reviewed the Federal Acquisition Regulation, Departmental policies and procedures, and General Accounting Office *Standards for Internal Control in the Federal Government*. We conducted interviews with CPO and FSA management and officials involved in the contracts reviewed. We also reviewed contract files, invoices, and other documentation available at the Department to evaluate the monitoring of Government property.

To select individual contractors to be reviewed, we reviewed a listing prepared by CPO staff of active FSA contracts that indicated for most contracts whether Government property was included. We validated the completeness of the FSA contracts listed with a prior listing of FSA contracts received from CPO for another assignment. In total, 59 active FSA contracts were listed. We also reviewed listings of Government property submitted by the contractors in response to the CPO request in March 2000. CPO did not have complete information for all contracts, so we contacted individual Contracting Officers and Contract Specialists to determine whether Government property was included in contracts for which information was not provided. We determined that 31 of the 59 active FSA contracts included Government property. We judgmentally selected three contracts with significant amounts of Government property for our individual contractor reviews.

During our individual contractor audits, we validated listings of Government property that the contractors provided to FSA with the actual physical equipment located at contractor facilities. We also selected items at the contractor locations and traced those items back to the listings provided FSA. Attachment 1 lists the individual contractor audit reports issued. Those reports provide the details of data reviewed at each contractor.

We reviewed the Department's Government Performance and Results Act report, *1999 Performance Reports and 2001 Plans*, to determine whether the Department had established any performance indicators applicable to the management of Government property. While the report

includes an indicator for evaluation of performance-based contracts,<sup>5</sup> no indicator has been established related to the management of Government property.

We performed our fieldwork at applicable Department of Education offices in Washington, DC, during the period October 2000 through September 2001. We also visited contractor facilities in Meriden, Connecticut; Rockville, Maryland; Falls Church, Virginia; and Greenville, Texas. Our visits to the contractor facilities were made during the period December 2000 through May 2001. An exit conference was held with Department officials on September 25, 2001. Our audit was performed in accordance with Government Auditing Standards appropriate to the scope of the review described above.

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<sup>5</sup> Indicator 4.6b, "Evaluation of contracts will indicate that better than fully successful performance, including quality, cost control, timeliness, and other factors, is being received by the Government and the taxpayer."

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## STATEMENT ON MANAGEMENT CONTROLS

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As part of our review, we assessed the system of management controls, policies, procedures, and practices applicable to the management of Government property under FSA contracts. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objectives.

For the purpose of this report, we assessed and classified the significant controls into the following categories:

- Reconciliation of purchases of Government property;
- Approval of contractor property management systems;
- Review of required reports; and
- Utilization and disposition of Government property.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed significant management control weaknesses that adversely affected FSA's ability to manage Government property held by its contractors. These weaknesses and their effects are fully discussed in the AUDIT RESULTS and OTHER MATTERS sections of this report.

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## **ATTACHMENT 1 -- Contractor Reports Issued**

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*Audit of Controls over Government Property Furnished to Computer Sciences Corporation, ED-OIG/A19-B0003, March 19, 2001*

*Audit of Controls over Government Property Furnished to Affiliated Computer Services, Inc., ED-OIG/A19-B0004, April 20, 2001*

*Audit of Controls over Government Property Managed by Raytheon Systems Company, ED-OIG/A19-B0005, September 19, 2001*





## UNITED STATES DEPARTMENT OF EDUCATION

*Student Financial Assistance  
Chief Operating Officer*

Ms. Nancy Brown, Acting Director  
Operations Internal Audit Team  
U.S. Department of Education  
Office of Inspector General  
400 Maryland Avenue, SW  
Washington, D.C. 20202-1600

Dear Ms. Brown:

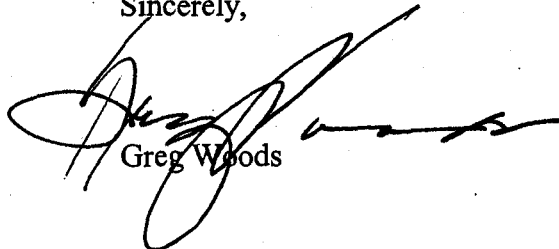
Thank you for the opportunity to review and comment on the draft audit report presenting the results of your audit of "Controls over Government Property Provided under Student Financial Assistance Contracts concerning Affiliated Computer Services, Inc. (ACS), Computer Sciences Corporation (CSC), and Raytheon Systems Company (Raytheon)," Control Number ED-OIG/A19-B0001, issued November 2001.

We concur with the one finding and three recommendations identified in the report. Additionally, we concur with the recommendation offered in "Other Matters." However, we do not feel the section in the draft report concerning contractors not managing Department property under their approved property control systems gives the full picture of this situation and we recommend that it be explained more fully. The attachment provides the Department's response to each recommendation.

We would like to thank you again for the management reports you previously provided on each of the three contractors listed above. We used your reports to assist us in monitoring these contracts and to require the contractors to improve their controls over Government property in their possession.

Again, we appreciate the opportunity to review and comment on the draft report.

Sincerely,



Greg Woods

Attachment

cc: Candace Hardesty  
Faye Harris  
Lorraine Lewis

**Response to OIG Draft Audit Report  
Audit of Controls over Government Property Provided under  
Student Financial Assistance Contracts concerning  
Affiliated Computer Services, Inc. (ACS), Computer Sciences Corporation (CSC), and  
Raytheon Systems Company (Raytheon)  
Control Number ED-OIG/A19-B0001**

**Office of Inspector General (OIG) draft report section:**

**Department Property Was Not Managed Under Approved Property Control Systems**

Office of Student Financial Assistance (OSFA) comments: While we do not disagree with this section of the report, we recommend that it more fully explain the situation. As the report notes, the property control systems of each of the three contractors were reviewed and approved by another Federal agency—in this case, the Defense Contract Audit Agency (DCAA)—and OSFA staff confirmed this with DCAA. The report fails to note the requirement at Federal Acquisition Regulation (FAR) §45.104(a) that “The review and approval of a contractor's property control system by one agency shall be binding on all other departments and agencies based on interagency agreements.” Nor does the report note that through our oversight efforts we came to question the adequacy of the contractors’ property management (and thus DCAA’s approvals) and asked the OIG to look into the matter during its review.

We appreciate the OIG letting us know that the contractors were not managing OSFA’s property under their approved property control systems. We have already taken action to ensure the contractors manage OSFA property properly.

We are disappointed that, in spite of the FAR requirement, we were unable to rely on DCAA’s approval. We question how DCAA could approve a contractor’s property control system if the contractor was not managing all Government property under that system. We feel DCAA had an obligation to inform us if its approval of a contractor’s property control system was limited to control of Department of Defense property, if that was the case. We encourage the OIG to bring this matter to DCAA’s attention and to work to improve interagency cooperation between Federal audit agencies. If interagency agreements (as referenced in the citation FAR above) are needed, we recommend that the OIG enter into appropriate agreements with DCAA and other Federal audit agencies.

**OIG Finding No. 1:**

**Improvements Were Needed in the Management of Government Property under SFA Contracts**

OIG Recommendation 1.1: *Ensure that contract management staff develop and implement a plan for monitoring the management of Government property, including clear definition of responsibilities. The monitoring plan should also include:*

- a. *Reconciling purchases of Government property with contractor-provided property records.*
- b. *Ensuring compliance with FAR requirements for Government property. Specifically, ensuring Department property is being managed under approved Government property systems, property records include all required data, annual reports of the value of Government property are submitted, and periodic inventories are conducted with results reported to SFA.*

OSFA Response: We concur. We are developing and will implement a plan for monitoring the management of Government property. The plan will include clear definitions of responsibility and address Items a and b outlined in the above recommendation.

OIG Recommendation 1.2: *Reinforce COR responsibilities to determine the need for Government property and to ensure proper utilization and disposition. With respect to the unused voice recognition unit equipment purchased under the FFEL contract, provide prompt disposition instructions to the contractor.*

OSFA Response: We concur. COR responsibilities for determining the need for Government property and ensuring proper utilization and disposition will continue to be reinforced throughout the length of all contracts. Prompt disposition instructions will be provided to the contractor under the FFEL contract. Our Monitoring Plan will specifically address COR responsibilities.

Recommendation 1.3: *Evaluate the continuing need for the component inventory listing under the FFEL contract, especially with respect to contractor-owned equipment and equipment located at Department facilities. If this information is not needed, modify the contract appropriately to delete this requirement, including any appropriate pricing adjustments. In addition, the SFA should:*

- a. *Conduct a physical inventory and reconcile the items at Department facilities on the contractor's listing to identify items that are no longer in use. Information should be provided to the contractor to correct the status of items purchased under the contract.*
- b. *Reconcile physical inventory results with information in the Department's asset management database and update equipment status appropriately in that system.*

Response: We concur. We will evaluate the continuing need for the component inventory listing under the FFEL contract and specifically address contractor-owned equipment and equipment located at Department facilities. If this information is deemed unnecessary, we will modify the contract appropriately to delete the requirement and any appropriate pricing adjustments. Additionally, we will perform Items a and b outlined in the above recommendation and address these issues in our Monitoring Plan.

**Other Matters: Laptop Computers Were Not Accounted for Properly**

Recommendation: *That SFA ensure the computers that could be located are accurately reflected in Department property records.*

Response: We concur. The identified laptop computers will be accurately reflected in Department property records. Our Monitoring Plan will specifically address procedures to accurately reflect complimentary Government property.